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NEA FOR FRONT OFFICE, NSC FOR ABRAMS/DORAN/LOGGERFO

E.O. 12958: DECL: 05/09/2016  
TAGS: [EFIN](#) [PREL](#) [PGOV](#) [KWBG](#) [KPAL](#) [IS](#)  
SUBJECT: PA FINANCIAL CRUNCH HAS LOCAL CONSEQUENCES

Classified By: Consul General Jake Walles, per reasons 1.4 (b) and (d).

¶1. (C) Summary. In a sign that the Hamas-led government's financial difficulties are trickling downward, a somber Hani al-Hayek -- Fatah mayor since May 2005 of the Bethlehem-area town of Bayt Sahur (population 13,000) -- informed ConGen Poloff May 5 that his municipality faced a serious financial crisis stemming from the PA Ministry of Finance's refusal to transfer an estimated USD 300,000 in property tax revenue. As a result, the municipality will be forced to lay off employees and cut back on services. End summary.

¶2. (C) Al-Hayek said that the taxes, collected from Bayt Sahur residents between January and March 2006, represent a significant portion of municipal funding. Approximately USD 50,000 is needed per month to pay salaries for the municipality's 65 employees and to cover basic services, such as local health clinics and garbage collection. Al-Hayek said that MOF officials have indicated that the PA treasury is "empty." Al-Hayek also noted that the PA Ministry of Local Government has offered no assistance to Bayt Sahur. (Comment: In addition to the fact that the PA Finance Ministry has no revenue, commercial banks in the West Bank and Gaza Strip that collect tax payments on behalf of the PA have not transferred these payments to the PA but are instead applying them against the PA's debts to the banks. End comment.)

¶3. (C) Barring an immediate infusion of money, al-Hayek indicated that he would be unable to pay June salaries and would thereafter dismiss at least ten employees per month until the situation improves. Al-Hayek said that he held a meeting May 5 with municipal employees where he informed them of the looming financial crisis. The mayor told the employees that salaries could be slashed by as much as 50 percent as a temporary fix. Al-Hayek predicted that the majority of municipal workers would likely remain in their jobs since few job prospects exist in Bayt Sahur. He said municipal services would be affected by the cutbacks.

¶4. (C) Al-Hayek planned to travel to Italy on May 6 to request assistance from Bayt Sahur's "sister cities." Whatever funds he succeeded in collecting would not solve the problem, he said. Al-Hayek noted that the economic hardships in Bayt Sahur have led many in the community's predominantly Christian population to apply for exit visas to the U.S. and Europe in search of better economic opportunities. He added that the neighboring towns of Bethlehem and Bayt Jala were facing similar economic problems, but suggested that Bethlehem could better weather the situation by relying on the city's tourism industry.

Comment  
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15. (C) Al-Hayek's bleak assessment of Bayt Sahur's financial standing underscores that the PA's financial woes are having a significant impact at the municipal level. Unlike Bayt Sahur, which can benefit somewhat from tourism in neighboring Bethlehem, most Palestinian municipalities in the West Bank have no alternative funding mechanism beyond property taxes for providing basic services to its communities. Under these circumstances, municipalities are likely to face increasingly stark choices as to which services they can provide to their constituents.

WALLES